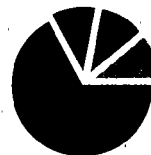


CITY OF MILFORD
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS



HINTONBURDICK
HINTON BURDICK HALL & SPILKER PLLC
CPAs & ADVISORS

**CITY OF MILFORD
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FINANCIAL SECTION



HINTON BURDICK
HINTON BURDICK HALL & SPILKER PLLC
CPAs & ADVISORS

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council
Milford, Utah

MEMBERS:
KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milford, Utah, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Milford's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Milford, Utah, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 18, 2006, on our consideration of the City of Milford's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayor & City Council

October 18, 2006

Page 2

The Management's Discussion and Analysis on pages 3-8, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Hinton, Burdick, Hall, & Spilker, PLLC

Hinton, Burdick, Hall & Spilker, PLLC

October 18, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Milford we offer readers of the City of Milford's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net assets) by \$2.14 million at the close of the fiscal year.
- Total net assets (governmental & proprietary funds) decreased by \$58,128.
- In the General Fund, expenditures exceeded revenues by \$30,396.
- Total revenues from all sources were \$1.45 million which includes \$490,020 in revenue from the Water & Sewer funds.
- Total long-term liabilities of the City are \$1,710,146.
- At the end of the current fiscal year, unrestricted fund balance for the City's governmental and proprietary funds were \$-29,722 and \$68,980 respectively.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. (3) Notes to the financial statements.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the City's financial position. The City's governmental and business type combined assets exceed liabilities by \$1.40 and \$1.19 million, respectively, as of June 30, 2006, as shown in the following condensed statement of net assets.

Statement of Net Assets

	Governmental activities		Business-type activities	
	2006	2005	2006	2005
Current and other assets	\$ 240,719	\$ 153,484	\$ 282,837	\$ 295,955
Capital assets	1,483,694	1,561,051	2,666,717	2,825,260
Total assets	1,724,413	1,714,535	2,949,554	3,121,215
Long-term liabilities outstanding	142,118	183,912	1,606,268	1,743,298
Other liabilities	210,544	129,535	184,814	190,654
Total liabilities	352,662	313,447	1,791,082	1,933,952
Net assets:				
Invested in capital assets, net of related debt	1,341,576	1,377,139	923,201	936,337
Restricted	59,897	65,032	166,291	121,905
Unrestricted	(29,722)	(41,083)	68,980	129,021
Total net assets	\$ 1,371,751	\$ 1,401,088	\$ 1,158,472	\$ 1,187,263

Governmental Activities

The cost of all Governmental fund activities this year was \$1,033,944. As shown on the comparative statement presented below; \$337,533 of this cost was paid for by those who directly benefited from the programs; \$148,400 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental tax revenues were \$435,820. Miscellaneous revenues totaled \$82,857.

The City's programs include: general government, public safety, streets and highways, parks and recreation, and community development. Each program's revenues and expenses are presented below.

	Governmental activities		Business-type activities	
	2006	2005	2006	2005
Revenues:				
Program revenues:				
Charges for services	\$ 314,079	\$ 218,510	\$ 483,312	\$ 419,742
Operating grants and contributions	95,211	89,915	-	-
Capital grants and contributions	53,189	208,983	-	-
General revenues:				
Taxes	435,820	474,586	-	-
Licenses, permits, and fees	23,454	3,872	-	-
Grants and contributions not restricted to specific programs	-	-	-	-
Other	82,857	78,029	(34,292)	(32,776)
Total revenues	<u>1,004,610</u>	<u>1,073,895</u>	<u>449,020</u>	<u>386,966</u>
Expenses:				
General government	590,044	474,996	-	-
Public safety	173,554	181,359	-	-
Streets and highways	64,449	98,453	-	-
Parks and recreation	199,080	133,299	-	-
Community development	-	-	-	-
Interest on long-term debt	6,817	8,333	-	-
Water	-	-	295,227	323,469
Sewer	-	-	182,582	184,964
Total expenses	<u>1,033,944</u>	<u>896,440</u>	<u>477,809</u>	<u>508,433</u>
Increase in net assets	(29,334)	177,455	(28,789)	(121,467)
Net assets, beginning	1,401,085	1,223,630	1,187,261	1,308,727
Net assets, ending	<u>\$ 1,371,751</u>	<u>\$ 1,401,085</u>	<u>\$ 1,158,472</u>	<u>\$ 1,187,260</u>

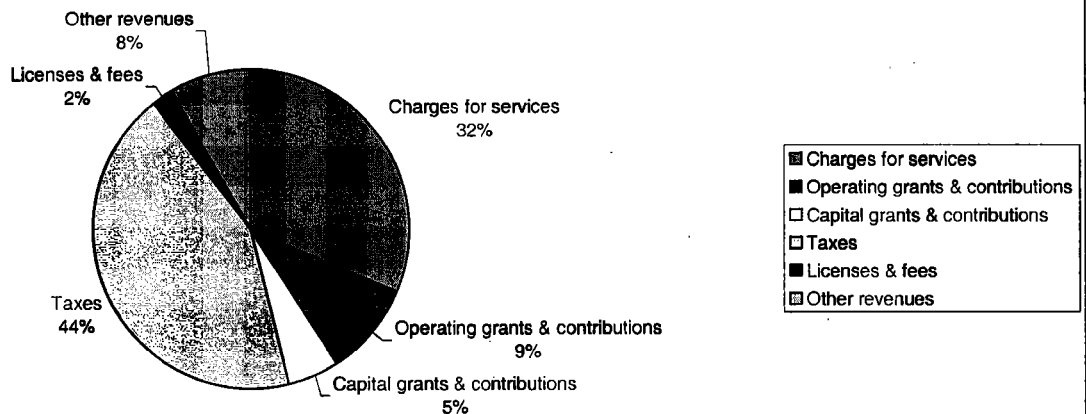
Total resources available during the year to finance governmental operations were \$2,405,695 consisting of Net assets at July 1, 2005 of \$1,401,085, program revenues of \$462,479 and general revenues of \$542,131. Total governmental activities' expenditures during the year were \$1,033,944; thus Governmental Net Assets were decreased by \$29,334 to \$1,371,751.

The following graphs compare program expenses to program revenues for this year and provide a breakdown of revenues by source for all governmental activities:

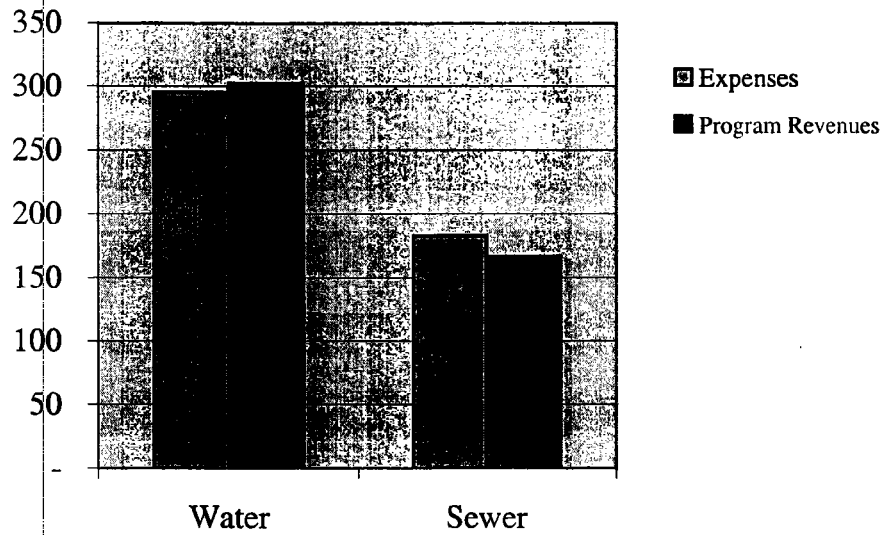
Expenses and Program Revenues - Governmental Activities
(in Thousands)



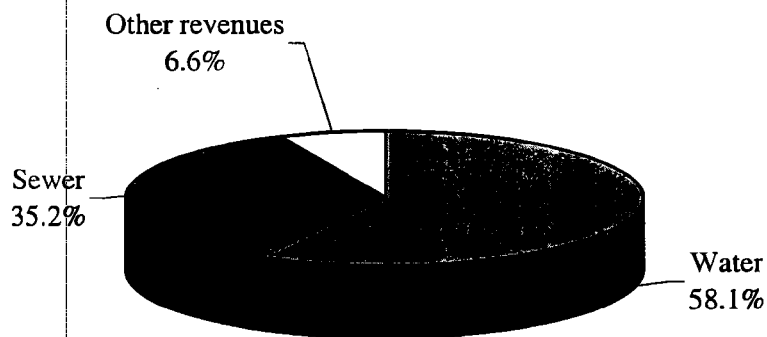
Revenue by Source - Governmental Activities



Expenses and Program Revenues - Business- type Activities
(in Thousands)



Revenue By Source - Business-type Activities



BUDGETARY HIGHLIGHTS

Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions. Capital assets include land, buildings, improvements, equipment, vehicles, infrastructure and furniture and fixtures. At the end of fiscal year 2006, the City's net capital assets totaled \$1,483,694. Depreciation on capital assets is recognized in the government-wide financial statements. (See note 7 to the financial statements).

Debt

At the end of fiscal year 2006, the City's total government and proprietary-type long-term debt outstanding was \$103,878 and 1,606,268, respectively. During the fiscal year, the City's total bonded debt decreased by \$168,249. (See note 8 to the financial statements for detailed descriptions).

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

The City's fiscal year 2007 budget shows a slight increase in operating revenues and expenditures.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City, 26 South 100 West, Milford UT, 84751

BASIC FINANCIAL STATEMENTS

CITY OF MILFORD, UTAH
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ (46,082)	\$ 53,776	\$ 7,694
Receivables (net of allowance)	246,305	62,770	309,075
Inventory	31,188	-	31,188
Internal balances	-	-	-
Prepays	-	-	-
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	9,308	166,291	175,599
Capital assets (net of accumulated depreciation):			
Land	103,634	13,959	117,593
Buildings	157,272	2,941	160,213
Improvements	1,124,806	-	1,124,806
Office furniture & Equipment	12,362	-	12,362
Machinery & equipment	61,810	25,811	87,621
Automobiles and trucks	4,575	5,946	10,521
Distribution system	-	2,618,060	2,618,060
Infrastructure	19,235	-	19,235
Total assets	<u>1,724,413</u>	<u>2,949,554</u>	<u>4,673,967</u>
Liabilities			
Accounts payable and accrued liabilities	174,290	27,057	201,347
Deferred revenue	36,254	19,000	55,254
Interest payable	-	1,509	1,509
Noncurrent liabilities:			
Due within one year	38,240	137,248	175,488
Due in more than one year	103,878	1,606,268	1,710,146
Total liabilities	<u>352,662</u>	<u>1,791,082</u>	<u>2,143,744</u>
Net Assets			
Invested in capital assets, net of related debt	1,341,576	923,201	2,264,777
Restricted for:			
Debt service	59,897	166,291	226,188
Unrestricted	(29,722)	68,980	39,258
Total Net Assets	<u>\$ 1,371,751</u>	<u>\$ 1,158,472</u>	<u>\$ 2,530,223</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MILFORD, UTAH
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government	\$ 590,044	\$ 1,204	\$ 46,550	\$ (379,241)	\$ -	\$ (379,241)
Public safety	173,554	2,043	-	(104,859)	-	(104,859)
Streets and highways	64,449	70,864	-	6,415	-	6,415
Parks and recreation	199,080	21,100	6,639	(86,963)	-	(86,963)
Interest on long-term debt	6,817	-	-	(6,817)	-	(6,817)
Total governmental activities	1,033,944	95,211	53,189	(571,465)	-	(571,465)
Business-type activities:						
Water	295,227	-	-	-	5,642	5,642
Sewer	182,582	-	-	-	(139)	(139)
Total business-type activities	477,809	-	-	-	5,503	5,503
General Revenues:						
Taxes:						
Property taxes				124,682	-	124,682
Sales and use taxes				139,957	-	139,957
Franchise taxes				169,954	-	169,954
Fee-in-lieu				1,227	-	1,227
Licenses, permits, and fees				23,454	-	23,454
Unrestricted investment earnings				6,470	6,708	13,178
Lease payments				-	-	-
Loss on retirement of capital assets				(5,433)	-	(5,433)
Miscellaneous				40,820	-	40,820
Transfers				41,000	(41,000)	-
Total general revenues & transfers				542,131	(34,292)	507,839
Change in net assets				(29,334)	(28,789)	(58,123)
Net assets - beginning				1,401,085	1,187,261	2,588,346
Net assets - ending				\$ 1,371,751	\$ 1,158,472	\$ 2,530,223

The accompanying notes are an integral part of the financial statements.

CITY OF MILFORD, UTAH
Balance Sheet
Governmental Funds
June 30, 2006

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 31,458	\$ (143,234)	\$ (111,776)
Cash - designated	65,694	-	65,694
Cash - restricted	-	9,308	9,308
Receivables	16,228	230,077	246,305
Due from other governments	-	-	-
Due from other funds	-	-	-
Prepaid expenses	-	-	-
Inventories	31,188	-	31,188
Total assets	<u>\$ 144,568</u>	<u>\$ 96,151</u>	<u>\$ 240,719</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 143,443	\$ -	\$ 143,443
Accrued liabilities	11,812	-	11,812
Customer deposits	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	36,254	36,254
Total liabilities	<u>155,255</u>	<u>36,254</u>	<u>191,509</u>
Fund Balances:			
Unreserved	(10,687)	-	(10,687)
Designated	-	-	-
Reserved for debt service	-	59,897	59,897
Total fund balances	<u>(10,687)</u>	<u>59,897</u>	<u>49,210</u>
Total liabilities and fund balances	<u>\$ 144,568</u>	<u>\$ 96,151</u>	

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,483,694
Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.	(161,153)

Net assets of governmental activities	\$ 1,371,751
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The accompanying notes are an integral part of the financial statements.

CITY OF MILFORD, UTAH
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General	Debt Service Fund	Total Governmental Funds
Revenues			
Property taxes	\$ 124,682	\$ -	\$ 124,682
Sales and use taxes	139,957	-	139,957
Franchise taxes	169,954	-	169,954
Fees in lieu of property taxes	1,227	-	1,227
Licenses, permits and fees	23,454	-	23,454
Intergovernmental revenue	148,400	-	148,400
Charges for services	242,158	-	242,158
Interest income	(2,392)	8,862	6,470
Miscellaneous revenues	40,820	-	40,820
Swimming pool revenues	47,950	-	47,950
Special Assessment revenue	-	23,971	23,971
Total revenues	<u>936,210</u>	<u>32,833</u>	<u>969,043</u>
Expenditures			
Current:			
General government	509,657	150	509,807
Public safety	172,947	-	172,947
Highways and streets	60,858	-	60,858
Parks and recreation	203,352	-	203,352
Community development	-	-	-
Capital outlay	-	-	-
Debt service - principal	-	31,000	31,000
Debt service - interest	-	6,817	6,817
Total expenditures	<u>946,814</u>	<u>37,967</u>	<u>984,781</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,604)</u>	<u>(5,134)</u>	<u>(15,738)</u>
Other Financing Sources (Uses)			
Lease proceeds	-	-	-
Lease payment	-	-	-
Transfers in	41,000	-	41,000
Transfers out	-	-	-
Total other financing sources (uses)	<u>41,000</u>	<u>-</u>	<u>41,000</u>
Net change in fund balances	30,396	(5,134)	25,262
Fund balances, beginning of year	<u>(41,083)</u>	<u>65,031</u>	<u>23,948</u>
Fund balances, end of year	<u>\$ (10,687)</u>	<u>\$ 59,897</u>	<u>\$ 49,210</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MILFORD, UTAH
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 25,262
Governmental funds report capital outlays as expenditures. However, in the and reported as depreciation expense. This is the amount by which capital outlays exceeded	(71,922)
Repayment of principal on long-term bonds payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	31,000
Issuance of long-term debt provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net assets.	-
Retirement of a capital asset, which has not been fully depreciated reduces net assets in the statement of net assets, but is not an expenditure in the governmental funds	(5,433)
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds	(19,035)
Repayment of principal on capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	10,794
Change in net assets of governmental activities	<u><u>\$ (29,334)</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF MILFORD, UTAH
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 134,000	\$ 128,949	\$ 124,682	\$ (4,267)
Sales and use taxes	188,000	150,000	139,957	(10,043)
Franchise taxes	156,000	176,000	169,954	(6,046)
Licenses, permits and fees	12,600	17,600	23,454	5,854
Intergovernmental revenue	249,212	153,605	148,400	(5,205)
Charges for services	151,400	237,030	242,158	5,128
Fees in lieu of property taxes	3,000	3,000	1,227	(1,773)
Interest income	-	-	(2,392)	(2,392)
Miscellaneous revenues	49,900	44,900	40,820	(4,080)
Swimming pool revenues	46,000	50,000	47,950	(2,050)
Total revenues	990,112	961,084	936,210	(24,874)
Expenditures				
Current:				
General government	552,572	547,190	509,657	37,533
Public safety	182,352	183,252	172,947	10,305
Highways and streets	120,800	69,400	60,858	8,542
Parks and recreation	175,388	202,242	203,352	(1,110)
Community development	-	-	-	-
Capital outlay				
Debt service - principal				
Debt service - interest				
Total expenditures	1,031,112	1,002,084	946,814	55,270
Excess (deficiency) of revenues over (under) expenditures	(41,000)	(41,000)	(10,604)	30,396
Other Financing Sources (Uses)				
Lease proceeds	-	-	-	-
Lease payment	-	-	-	-
Transfers in	41,000	41,000	41,000	-
Transfers out	-	-	-	-
Total other financing sources (uses)	41,000	41,000	41,000	-
Net change in fund balances	-	-	30,396	30,396
Fund balances, beginning of year	(41,083)	(41,083)	(41,083)	-
Fund balances, end of year	\$ (41,083)	\$ (41,083)	\$ (10,687)	\$ 30,396

The accompanying notes are an integral part of the financial statements.

CITY OF MILFORD, UTAH
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Water Fund	Sewer Fund	Totals 2006
Assets			
Current assets:			
Cash	\$ (31,485)	\$ (37,136)	\$ (68,621)
Receivables, net of allowance	44,929	17,841	62,770
Due from other funds	-	-	-
Total current assets	<u>13,444</u>	<u>(19,295)</u>	<u>(5,851)</u>
Noncurrent assets:			
Restricted assets:			
Cash - restricted	68,590	97,701	166,291
Cash - designated	22,443	99,954	122,397
Capital assets:			
Land	-	13,959	13,959
Buildings	4,293	4,643	8,936
Machinery & equipment	57,349	83,105	140,454
Automobiles and trucks	48,612	36,747	85,359
Distribution system	2,362,139	2,012,234	4,374,373
Less: Accumulated depreciation	(1,017,629)	(938,735)	(1,956,364)
Total capital assets net of accumulated depreciation	<u>1,454,764</u>	<u>1,211,953</u>	<u>2,666,717</u>
Total noncurrent assets	<u>1,545,797</u>	<u>1,409,608</u>	<u>2,955,405</u>
Total assets	<u>1,559,241</u>	<u>1,390,313</u>	<u>2,949,554</u>
Liabilities			
Current liabilities:			
Accounts payable	4,594	1,861	6,455
Accrued liabilities	5,394	9,198	14,592
Customer deposits	6,010	-	6,010
Deferred revenue	9,500	9,500	19,000
Interest payable	1,153	356	1,509
Current portion of noncurrent liabilities	65,000	72,248	137,248
Total current liabilities	<u>91,651</u>	<u>93,163</u>	<u>184,814</u>
Noncurrent liabilities:			
Leases payable	8,612	8,612	17,224
Bonds payable	1,041,763	684,529	1,726,292
Less current portion of noncurrent liabilities	(65,000)	(72,248)	(137,248)
Total noncurrent liabilities	<u>985,375</u>	<u>620,893</u>	<u>1,606,268</u>
Total liabilities	<u>1,077,026</u>	<u>714,056</u>	<u>1,791,082</u>
Net Assets			
Invested in capital assets, net of related debt	404,389	518,812	923,201
Restricted for debt service	68,590	97,701	166,291
Designated	22,443	99,954	122,397
Unrestricted	(13,207)	(40,210)	(53,417)
Total net assets	<u>\$ 482,215</u>	<u>\$ 676,257</u>	<u>\$ 1,158,472</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MILFORD, UTAH
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Water Fund	Sewer Fund	Totals 2006
Operating revenues:			
Charges for services	\$ 290,162	\$ 179,246	\$ 469,408
Other revenues	6,920	-	6,920
Total operating revenues	<u>297,082</u>	<u>179,246</u>	<u>476,328</u>
Operating expenses:			
Salaries, wages, & benefits	110,896	98,082	208,978
Repairs & maintenance	10,775	2,398	13,173
Utilities	39,707	6,595	46,302
Supplies	9,160	529	9,689
Legal & professional fees	8,133	600	8,733
Miscellaneous	2,467	1,883	4,350
Depreciation	87,617	72,053	159,670
Total operating expenses	<u>268,755</u>	<u>182,140</u>	<u>450,895</u>
Operating income (loss)	<u>28,327</u>	<u>(2,894)</u>	<u>25,433</u>
Nonoperating revenues (expenses):			
Connection and impact fees	3,787	3,197	6,984
Interest income	1,469	5,239	6,708
Grant revenue	-	-	-
Lease payment	-	-	-
Interest expense and fiscal charges	(26,472)	(442)	(26,914)
Total nonoperating revenues (expenses)	<u>(21,216)</u>	<u>7,994</u>	<u>(13,222)</u>
Income before contributions and transfers	<u>7,111</u>	<u>5,100</u>	<u>12,211</u>
Capital contributions	-	-	-
Transfers from other funds	-	-	-
Transfers to other funds	(20,000)	(21,000)	(41,000)
Change in net assets	<u>(12,889)</u>	<u>(15,900)</u>	<u>(28,789)</u>
Total net assets, beginning of year	495,104	692,157	1,187,261
Total net assets, end of year	<u><u>\$ 482,215</u></u>	<u><u>\$ 676,257</u></u>	<u><u>\$ 1,158,472</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF MILFORD, UTAH
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Water Fund	Sewer Fund	Totals 2006
Cash flows from operating activities:			
Cash received from customers, service fees	\$ 276,609	\$ 178,755	\$ 455,364
Cash received from customers, capacity fees and other	6,920	-	6,920
Cash paid to suppliers	(69,918)	(8,816)	(78,734)
Cash paid to employees	(110,896)	(98,082)	(208,978)
Net cash provided by operating activities	<u>102,715</u>	<u>71,857</u>	<u>174,572</u>
Cash flows from noncapital financing activities:			
Transfers (to) from other funds	(20,000)	(21,000)	(41,000)
Lease payment	-	-	-
Proceeds from state and federal grants	-	-	-
Net cash used by noncapital financing activities	<u>(20,000)</u>	<u>(21,000)</u>	<u>(41,000)</u>
Cash flows from capital and related financing activities:			
Principal payments on capital leases	(4,080)	(4,080)	(8,160)
Principal payments on bonds	(65,000)	(72,247)	(137,247)
Interest paid	(26,572)	(554)	(27,126)
Purchase of fixed assets	(563)	(563)	(1,126)
Connection and impact fees	3,787	3,197	6,984
Net cash used by capital and related financing activities:	<u>(92,428)</u>	<u>(74,247)</u>	<u>(166,675)</u>
Cash flows from investing activities:			
Interest on investments	1,469	5,239	6,708
Net decrease in cash and cash equivalents	(8,244)	(18,151)	(26,395)
Cash and cash equivalents, beginning of year	67,792	178,670	246,462
Cash and cash equivalents, end of year	<u>\$ 59,548</u>	<u>\$ 160,519</u>	<u>\$ 220,067</u>
Reconciliation of operating income to net cash provided by operating activities:			
Net operating income (loss)	\$ 28,327	\$ (2,894)	\$ 25,433
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation/amortization	87,617	72,053	\$ 159,670
Changes in operating assets and liabilities:			
(Increase) Decrease in receivables	(14,788)	1,509	(13,279)
(Increase) Decrease in inventory	-	-	-
Increase (Decrease) in accounts payable	2,042	1,861	3,903
Increase (Decrease) in customer deposits	3,235	-	3,235
Increase (Decrease) in deferred revenue	(2,000)	(2,000)	(4,000)
Increase (Decrease) in accrued liabilities	(1,718)	1,328	(390)
Net cash provided by operating activities	<u>\$ 102,715</u>	<u>\$ 71,857</u>	<u>\$ 174,572</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies

General

The financial statements of the City of Milford, Utah have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the governmental-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Reporting Entity

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

The accompanying financial statements include all activities of the City.

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies, Continued

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of a related liability, rather than as expenditures in the government-wide financial statements.

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies, Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, room taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The Water Fund is used to account for the provision of water services to the residents of the City.

The Sewer Fund is used to account for the provision of sewer services to the residents of the City.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services.

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies, Continued

Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Investments

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition. The City's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's pool, and other investments as allowed by the State of Utah's Money Management Act. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices.

Receivables and Payables

All trade accounts receivable are shown net of an allowance for uncollectibles. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

Inventories and prepaid items

Other than the airport's aviation fuel, the costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. The City's aviation fuel inventory is recorded at cost on the first-in first-out (FIFO) method. All other City inventories are considered immaterial; thus, no provision for inventory has been made for them in these financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The city has elected not to retroactively report its infrastructure capital assets.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Improvements	20-40 years
Automobiles and trucks	5-7 years
Machinery and equipment	7 years

Compensated Absences

For governmental funds, amounts of vested or accumulated vacation and comp time that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net assets and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Vested or accumulated vacation and comp time in the proprietary funds are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

Accrued Benefits

Accumulated unpaid vacation and other employee benefit amounts are accrued as an expenditure at year end.

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies, Continued

Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Use of Restricted Assets

When both restricted and unrestricted assets are available for use, it is the City's policy to use restricted assets first, then unrestricted assets as they are needed; but reserves the right to be selective in the use of such restricted assets that best fit City needs.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets. Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this \$161,153 difference are as follows:

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 2. Reconciliation of Government-Wide and Fund Financial Statements, Continued

Long-term debt transactions:

Leases payable	\$ 38,118
Change in governmental funds' compensated absences	19,035
Bonds payable	<u>104,000</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 161,153</u>

Capital related items:

When capital assets (property, plant & equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 2,503,529
Accumulated depreciation	<u>(1,019,835)</u>
Total Difference	<u>\$ 1,483,694</u>

Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference of \$71,922 are as follows:

Capital outlay	\$ 47,621
Depreciation expense	<u>(119,543)</u>
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental funds	<u>\$ (71,922)</u>

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 3. Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

The City Council observes the following procedures in establishing the budgetary data reflected in the financial statements:

- (1) Prior to the first meeting in May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Budgets are required for the General Fund, Debt Service Fund, and the Enterprise Funds.
- (2) Public hearings are conducted to obtain taxpayer comments.
- (3) Prior to June 22, the budget is legally enacted through passage of an ordinance.
- (4) The City Manager is authorized to transfer budgeted amounts within departments; however, to transfer budgeted amounts between departments requires City Council approval. Any revisions that alter the total expenditures of any fund must be approved through public hearing by the City Council and can be made at any time during the fiscal year.

Budgets for the General Fund and Debt Service Funds are prepared on the modified accrual method of accounting. Budgets for the Enterprise Funds are prepared on the accrual basis of accounting. Control is maintained at the function level. (i.e. Public Safety, Highways and Public Improvements, etc.) All appropriations lapse at year-end. Utah State law requires budgets to be prepared and reported on for the General Fund, and Major Special Revenue Funds. The General Fund budget was amended during the current fiscal year.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City.

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 3. Stewardship, Compliance and Accountability, Continued

Property Taxes

Property taxes are collected by the Beaver County Treasurer and remitted to the City in monthly installments. Taxes are levied and are due and payable on November 1 and delinquent after November 30 of each year at which time they become liens if not paid. An accrual of uncollected current and prior year's property taxes has not been made, as the amounts are not material in relationship to the financial statements taken as a whole.

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly.

Note 4. Deposits and Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The City follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of City funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 4. Deposits and Investments, Continued

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The City does not have a formal policy for custodial credit risk. At June 30, 2006, cash on hand was \$200, and the carrying amount of the City's deposits was \$22,168. As of June 30, 2006, the City's bank balance of \$25,195 was fully insured.

Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated*, 1953, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 4. Deposits and Investments, Continued

or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 20, 2006, the City had the following investments and maturities:

Investment Type	Investments' Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 160,924	\$ 160,924	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ 160,924</u>	<u>\$ 160,924</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act.

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 4. Deposits and Investments, Continued

At June 30, 2006, the City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	160,924	-	-	-	160,924
Total Fair Value	<u>\$ 160,924</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 160,924</u>

The City's cash deposits and investments are summarized as follows:

Carrying amount of demand deposits and petty cash	\$ 22,368
State of Utah Public Treasurer's Investment Fund	160,924
Cash and cash equivalents	<u>\$ 183,292</u>

The City's cash deposits and investments are further summarized and presented in the financial statements at cost as follows:

	Total	Designated	Restricted	Unrestricted
Sewer Fund	160,518.79	99,954.25	97,700.98	(37,136.44)
Water Fund	59,547.66	22,443.09	68,590.02	(31,485.45)
General Fund	97,151.38	65,693.69	0	31,457.69
SID Debt Service Fund	(133,926.22)	0	9,307.90	(143,234.12)

The restricted cash is classified as such to meet bond requirements (See Note 5). The designated cash amounts are set aside to accumulate sums large enough to accomplish various large future projects of the City.

Cash and cash equivalents include cash on hand, demand deposits with Wells Fargo Bank, and deposits in a cash management pool that has the general characteristics of demand deposit accounts.

One fund has a cash deficit position in the pooled cash of the City. Such deficit is as follows:

General Fund	\$ -
Debt Service Fund	143,234
	<u>\$ 143,234</u>

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 5. Restricted Assets

The revenue bonds issued by the water and sewer funds in fiscal year ended June 30, 1991, June 30, 1996 and June 30, 2002 were financed by the Utah State Division of Finance. In connection with these revenue bond obligations, the City has restricted \$68,590 from the Water Fund and \$97,701 from the Sewer Fund's investments with the State Treasurer's Investment Fund Account at June 30, 2006. During the fiscal year ended June 30, 1999, the City issued \$295,000 of special improvement district bonds, which have a guaranty fund requirement. The City has restricted \$9,308 in the SID debt service fund to comply with this requirement.

Note 6. Net Investment in Capital Lease

The City has entered into a lease agreement to purchase a backhoe. The lease is considered a capital lease in accordance with Financial Accounting Standards Board statement number 13. The lease is with Wells Fargo Leasing and the debt is shared equally among the General Fund, Water Fund, and Sewer Fund. Equipment under this capitalized lease at June 30, 2006, amounts to \$61,500. At June 30, 2006, \$32,800 in depreciation has been taken against the backhoe. The following is an annual schedule of future minimum lease payments at 3.65 percent, together with the present value of the net minimum lease payments:

Year Ending June 30,	Wells Fargo Leasing
2007	13,630
2008	13,630
2009	-
2010	-
	<hr/>
Total remaining minimum lease payments	27,260
Less: Amount representing interest	1,423
	<hr/>
Present value of net remaining minimum lease payments	\$ 25,837
	<hr/> <hr/>

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 6. Net Investment in Capital Lease, Continued

The City has entered into a lease agreement to purchase a street sweeper. The lease is considered a capital lease in accordance with Financial Accounting Standards Board statement number 13. The lease is with Wells Fargo Leasing and the debt is owed by the General Fund. Equipment under this capitalized lease at June 30, 2006, amounts to \$33,720. At June 30, 2006, \$8,029 in depreciation has been taken against the street sweeper. The following is an annual schedule of future minimum lease payments at 3.80 percent, together with the present value of the net minimum lease payments:

<u>Year Ending June 30,</u>	<u>Wells Fargo Leasing</u>
2007	8,090
2008	8,091
2009	8,090
2010	<u>8,090</u>
Total remaining minimum lease payments	32,361
Less: Amount representing interest	<u>2,855</u>
Present value of net remaining minimum lease payments	<u><u>\$ 29,506</u></u>

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 7. Capital Assets

A summary of changes in fixed assets follows:

Governmental Activities:

	<u>6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2006</u>
Capital assets not being depreciated:				
Land	\$ 103,634	\$ -	\$ -	\$ 103,634
Total capital assets, not being depreciated	<u>103,634</u>	<u>-</u>	<u>-</u>	<u>103,634</u>
Capital assets being depreciated:				
Buildings	\$ 358,522	\$ 3,560	\$ 8,150	\$ 353,932
Improvements other than buildings	1,624,199	40,374	-	1,664,573
Machinery and Equipment	262,278	-	-	262,278
Automobiles and trucks	36,679	-	-	36,679
Office furniture and equipment	58,086	3,687	450	61,323
Infrastructure	21,110	-	-	21,110
Total capital assets, being depreciated	<u>2,360,874</u>	<u>47,621</u>	<u>8,600</u>	<u>2,399,895</u>
Less accumulated depreciation for:				
Buildings	\$ (184,966)	\$ (14,411)	\$ 2,717	\$ (196,660)
Improvements other than buildings	(464,829)	(74,938)	-	(539,767)
Machinery and Equipment	(182,099)	(18,369)	-	(200,468)
Automobiles and trucks	(28,204)	(3,900)	-	(32,104)
Office furniture and equipment	(42,190)	(7,221)	450	(48,961)
Infrastructure	(1,171)	(704)	-	(1,875)
Total accumulated depreciation	<u>(903,459)</u>	<u>(119,543)</u>	<u>3,167</u>	<u>(1,019,835)</u>
Total capital assets, being depreciated	<u>1,457,415</u>	<u>(71,922)</u>	<u>5,433</u>	<u>1,380,060</u>
Total capital assets, net	<u><u>\$ 1,561,049</u></u>	<u><u>\$ (71,922)</u></u>	<u><u>\$ 5,433</u></u>	<u><u>\$ 1,483,694</u></u>

Depreciation expense was charged to the functions/programs of the City as follows:

General government	\$ 83,027
Highways & streets	10,305
Parks & recreation	25,604
Public safety	<u>607</u>
Total depreciation expense	<u><u>\$ 119,543</u></u>

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 7. Capital Assets, Continued

Business Type Activities:

	<u>6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2006</u>
Capital assets not being depreciated:				
Land	\$ 13,959	\$ -	\$ -	\$ 13,959
Total capital assets, not being depreciated	<u>13,959</u>	<u>-</u>	<u>-</u>	<u>13,959</u>
Capital assets being depreciated:				
Buildings	\$ 8,936	\$ -	\$ -	8,936
Machinery and Equipment	139,328	1,126	-	140,454
Automobiles and trucks	85,359	-	-	85,359
Distribution system	4,374,374	-	-	4,374,374
Total capital assets, being depreciated	<u>4,607,997</u>	<u>1,126</u>	<u>-</u>	<u>4,609,123</u>
Less accumulated depreciation for:				
Buildings	\$ (5,548)	\$ (447)	\$ -	\$ (5,995)
Machinery and Equipment	(104,684)	(9,960)	-	(114,644)
Automobiles and trucks	(68,713)	(10,699)	-	(79,412)
Distribution system	(1,617,749)	(138,565)	-	(1,756,314)
Total accumulated depreciation	<u>(1,796,694)</u>	<u>(159,671)</u>	<u>-</u>	<u>(1,956,365)</u>
Total capital assets, being depreciated,	<u>2,811,303</u>	<u>(158,545)</u>	<u>-</u>	<u>2,652,758</u>
Total capital assets, net	<u><u>\$ 2,825,262</u></u>	<u><u>\$ (158,545)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,666,717</u></u>

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 8. Long-Term Debt

The following is a summary of long-term debt for the year ended June 30, 2006:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Revenue Bonds Payable 1990 - Water Funds	\$ 17,763	\$ -	\$ 17,763
Revenue Bonds Payable 1990 - Sewer Funds	31,222	2,377	33,599
Revenue Bonds Payable 2000 - Water Funds	678,000	197,610	875,610
Revenue Bonds Payable 1996 - Sewer Funds	653,305	-	653,305
Revenue Bonds Payable 1996 - Water Funds	346,000	19,960	365,960
Special Assessments Bonds Payable 1998	<u>104,000</u>	<u>10,655</u>	<u>114,655</u>
Total Long-Term Debt	<u><u>\$ 1,830,290</u></u>	<u><u>\$ 230,602</u></u>	<u><u>\$ 2,060,892</u></u>

The following is a summary of changes in long-term debt for the year ended June 30, 2006:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2006</u>	<u>Current Portion</u>
Revenue Bonds Payable 1990 - Water Funds	\$ 22,763	\$ -	\$ 5,000	\$ 17,763	\$ 5,000
Revenue Bonds Payable 1990 - Sewer Funds	38,471	-	7,249	31,222	7,248
Revenue Bonds Payable 2000 - Water Funds	708,000	-	30,000	678,000	30,000
Revenue Bonds Payable 1996 - Sewer Funds	718,305	-	65,000	653,305	65,000
Revenue Bonds Payable 1996 - Water Funds	376,000	-	30,000	346,000	30,000
Special Assessments Bonds Payable 1998	<u>135,000</u>	<u>-</u>	<u>31,000</u>	<u>104,000</u>	<u>31,000</u>
Total Debt	<u><u>\$ 1,998,539</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 168,249</u></u>	<u><u>\$ 1,830,290</u></u>	<u><u>\$ 168,248</u></u>

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 8. Long-Term Debt, Continued

Revenue Bonds Payable - Sewer Fund

Revenue bonds were issued January 1, 1990, to finance construction of improvements and repairs to the City's sewer system. The City authorized the sale of \$125,000 in revenue bonds bearing a 3% interest rate to the Utah Water Pollution Control Committee, Department of Health, Division of Environmental Health. The bond provision requires the City to make the principal and interest payments on the bonds from net revenues of the sewer system. The required annual principal and interest payment is \$8,401.96. The balance still outstanding at June 30, 2006, is \$31,222.

Revenue Bonds Payable - Water Fund

Revenue bonds were issued October 10, 1990, to finance construction of improvements and repairs to the City's water system. The City authorized the sale of \$100,000 in revenue bonds bearing a 0% interest rate to the Utah Safe Drinking Water Committee, Division of Drinking Water. The bond provision requires the City to make the principal payments on the bonds from net revenues of the water system. The required annual principal payment is \$5,000. The balance still outstanding at June 30, 2006, is \$17,763.

Revenue Bonds Payable - Sewer Fund

Revenue bonds were issued August 22, 1995, to finance construction of improvements and additions to the sewer system. The City authorized the sale of \$1,304,000 in non-interest bearing revenue bonds to the Water Quality Board of the State of Utah. The bond provision requires the City to make the principal payments on the bonds from net revenues of the sewer system. The required annual principal payment is \$65,000. The balance still outstanding at June 30, 2006 is \$653,305.

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 8. Long-Term Debt, Continued

Revenue Bonds Payable - Water Fund

Revenue bonds were issued August 22, 1995, to finance construction of improvements and additions to the water system. The City authorized the sale of \$594,000 in 1% interest bearing revenue bonds to the Board of Water Resources, Department of Natural Resources of the State of Utah. The bond provision requires the City to make the principal payments on the bonds from net revenues of the water system. The required annual principal payment is on a graduated scale beginning at \$30,000. The balance still outstanding at June 30, 2006 is \$346,000.

Revenue Bonds Payable - Water Fund

Revenue bonds were issued April 8, 2002, to finance construction of improvements and additions to the water system. The City authorized the sale of \$766,000 in 3% interest bearing revenue bonds to the Board of Water Resources, Department of Natural Resources of the State of Utah. The bond provision requires the City to make the principal payments on the bonds from net revenues of the water system. The required annual principal payment is on a graduated scale beginning at \$31,000. The balance still outstanding at June 30, 2006 is \$678,000.

Special Assessments Bonds Payable

Special assessments bonds were issued October 26, 1998, to finance construction of improvements made in the Lewis Subdivision. The City authorized the sale of \$295,000 in special assessment bonds bearing a 5.05% interest rate. The bond provision requires the City to set aside in a guaranty fund an amount equal to .0002 of the fair market value of all taxable property in the City. The required balance at June 30, 2006, is \$8,240. The maintained balance is \$9,308 and is reflected in these financial statements as restricted cash and reserved fund balance in the SID Debt Service Fund. The required annual principal payment varies from \$33,000 to \$36,000. The balance still outstanding at June 30, 2006, is \$104,000.

The Governmental Accounting Standards Board requires special assessment debt to be recorded on the books when establishment and maintenance of a guarantee fund is required; however, the Assessment Bonds are not general obligations of

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

Note 8. Long-Term Debt, Continued

the City, but are payable exclusively out of the payment of the Special Assessment Fund and the Guaranty Fund. The City shall not be held liable for the payment of the Assessment Bonds, except to the extent of the Special Assessment Fund and Guaranty Fund, but shall be held responsible for the lawful levy of all regular assessments, for the maintenance of the Guaranty Fund as provided by law, and for the faithful accounting, collection, settlement and payment of the assessments and the moneys in said funds.

The annual requirements to amortize long-term debt outstanding at June 30, 2006, are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	171,465	29,989	201,454
2008	174,689	26,868	201,557
2009	177,920	23,610	201,530
2010	140,911	20,255	161,166
2010-2014	696,000	78,940	774,940
2015-2019	323,305	42,090	365,395
2020-2024	<u>146,000</u>	<u>8,850</u>	<u>154,850</u>
Totals	<u>\$ 1,830,290</u>	<u>\$ 230,602</u>	<u>\$ 2,060,892</u>

CITY OF MILFORD, UTAH
Notes to the Financial Statements
June 30, 2006

NOTE 9 Defined Benefit Pension Plan

Local Governmental – Cost Sharing

Plan Description. The City of Milford contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the *Utah Code*, Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 S., Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System the City of Milford is required to contribute 11.09% of their annual covered salary. All or part may be paid by the employer for the employee. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The City of Milford's contributions to the Noncontributory Retirement System for June 30, 2006, 2005 and 2004 were \$31,243, \$30,470, and \$23,759 respectively. The contributions were equal to the required contributions for each year.

Note 10. Risk Management

The City maintains insurance for liability, auto liability, worker's compensation and employee dishonesty through Utah Local Government's Insurance Trust.

SUPPLEMENTARY INFORMATION

CITY OF MILFORD, UTAH
Schedule of Impact Fees Received, Spent and Ending Balances
Fiscal Year Ending June 30, 2006

Water Impact Fund					
Fiscal Year	Revenues	Interest	Expenditures	Explanation of Expenditure	Accumulated Balance
1997					\$0.00
1998	\$8,266.27	\$239.30			\$8,505.57
1999		\$546.33			\$9,051.90
2000	\$2,680.95	\$785.99			\$12,518.84
2001	\$893.65	\$978.16			\$14,390.65
2002	\$893.65	\$486.28			\$15,770.58
2003	\$893.65	\$413.53			\$17,077.76
2004		\$1,899.23	\$18,976.99	Irrigation Project	\$0.00
2005	\$895.64	\$15.18			\$910.82
2006	\$1,787.30	\$46.41			\$2,744.53

Sewer Impact Fund					
Fiscal Year	Revenues	Interest	Expenditures	Explanation of Expenditure	Accumulated Balance
1997					\$0.00
1998	\$5,532.80	\$160.10			\$5,692.90
1999		\$365.68			\$6,058.58
2000	\$1,794.84	\$526.12			\$8,379.54
2001		\$618.94			\$8,998.48
2002		\$310.19			\$9,308.67
2003	\$582.53	\$226.68			\$10,117.88
2004		\$1,303.74	\$8,006.27	Sewer Lagoon Pumps	\$3,415.35
2005	\$598.28	\$110.47			\$4,124.10
2006	\$1,196.58	\$210.13			\$5,530.81

CITY OF MILFORD, UTAH
Schedule of Impact Fees Received, Spent and Ending Balances
Fiscal Year Ending June 30, 2006

Fiscal Year	Recreation Impact Fund				Accumulated Balance
	Revenues	Interest	Expenditures	Explanation of Expenditure	
1997					\$0.00
1998	\$3,870.77	\$116.92			\$3,987.69
1999		\$256.34			\$4,244.03
2000	\$1,161.24	\$363.99			\$5,769.26
2001		\$426.15			\$6,195.41
2002		\$246.76			\$6,442.17
2003		\$154.09			\$6,596.26
2004		\$40.11	\$6,636.37	Veterans Park Development	\$0.00
2005	\$387.08	\$37.17			\$424.25
2006		\$24.86			\$449.11

Note: The City has adopted an impact fee schedule which has the entire City as the Development Area. This means that fees collected on building permits are eligible expenditures in the City as determined in the annual budget process by the Mayor and City Council. Fees are collected as determined by an Impact Fee Study conducted by the Milford City Engineer. Fees are spent on projects approved by the Milford City Council.

AUDITORS' REPORTS FOR FEDERAL AND STATE

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HINTON BURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

MEMBERS:

KRIS J. BRAUNBERGER

DEAN R. BURDICK

ROBERT S. COX

BRENT R. HALL

KENNETH A. HINTON

MORRIS J. PEACOCK

MICHAEL K. SPILKER

MARK E. TICHENOR

**Independent Auditors' Report on Internal
Control over Financial Reporting and on Compliance
And Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards***

The Honorable Mayor and
Members of the City Council
Milford, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Milford City, Utah, as of and for the year ended June 30, 2006, which collectively comprise the City of Milford's basic financial statements and have issued our report thereon dated October 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Milford City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Milford City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to the management of Milford City in the accompanying findings and recommendations letter dated October 18, 2006.

This report is intended solely for the information and use of management, the city council, and the Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, PLLC
October 18, 2006



HINTON BURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

**Independent Auditors' Report on Compliance with
State Laws and Regulations Based on an Audit
of the Basic Financial Statements Performed in
Accordance with
*Government Auditing Standards***

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

The Honorable Mayor and
Members of the City Council
Milford, Utah

We have audited the basic financial statements of Milford City, for the year ended June 30, 2006, and have issued our report thereon dated October 18, 2006. As part of our audit, we have audited the City of Milford's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

Our audit also included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Other General Compliance Requirements
Department of Commerce
Impact Fees and Other Development Fees
Asset Seizures

The management of Milford City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings and Recommendations dated October 18, 2006. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph

In our opinion, Milford City, Utah complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, PLLC
October 18, 2006



HINTON BURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS

The Honorable Mayor,
City Council, & City Staff
Milford, Utah

Dear Ladies and Gentlemen:

During our audit of the funds of Milford City for the fiscal year 2005-2006, we encountered several instances of noncompliance that we are required to report to you and other appropriate oversight entities. They are listed below:

Compliance Findings and Recommendations:

1. Findings - General Fund Balance

Utah Code 10-6-116(4) requires the general fund balance be maintained at an amount above 5% of the fund's total revenues. At June 30, 2006, the general fund balance was still below that required level. In fact, despite the current year's excess of revenues over expenditures in the general fund, its fund balance still ended the year in a negative balance. This situation is in violation of the *Utah Code*, which requires that funds maintain a positive fund balance.

Recommendation

We suggest that the City budget this year's general fund revenues and expenditures so as to raise the fund balance above the required minimum amount.

2. Finding - Exceeding Budget Appropriations

The Fiscal Procedures Act for Utah Cities, Section 10-6-123 states, "No expenditures or encumbrances can be made in excess of appropriation for any department." The "Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual" identifies the department which has over-expended their budget. We noted that the City's budget was amended at year-end in an effort to comply with this law.

Recommendation

We recommend that the City continue their diligent efforts to operate within the confines of State law by limiting expenditures or following proper procedures to adjust the departmental budgets.

This letter is intended solely for the use of the City Council and management

It has been a pleasure to be of service to the City this past year. Observations made during our audit evidence the fact that as City officials you are carefully fulfilling your stewardship to the citizens of Milford. If we can be of further assistance in any way to assist you in fulfilling your stewardship, please contact us at any time. We look forward to a continued pleasant professional relationship.

Sincerely,

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, PLLC

October 18, 2006



City of Milford
P.O. Box 69
Milford, Utah 84751
435 387-2711
Fax: 435 387-2748

November 16, 2006

MacRay Curtis
Office of the Utah State Auditor
211 State Capitol
Salt Lake City, Utah 84114

Re: Schedule of Findings and Questioned Costs

Dear Sirs,

Following is Milford City's response to the Schedule of Findings and Questioned Costs for fiscal year 2005 - 2006.

Finding #1 - General Fund Balance

Milford City strives to comply with all laws set by the State of Utah. During our budget year, we continue to monitor the revenues and expenditures for all funds and to maintain the proper fund balance. During the 2005-2006 budget year, our auditors were required to make audit adjustments to the General Fund therefore decreasing the fund balance. Milford City will continue to monitor the fund balance in hopes to rectify this finding.

Finding #2 - Exceeding Budget Appropriations

Each year we attempt to analyze and compare actual expenditures versus budgeted amounts. The budget is opened in a public hearing for the purpose of amending each department's revenues and expenditures, which then are adjusted. Journal entries made by the City Auditor create over-expended budget amounts. We will continue to strive to keep our budget in compliance with all state laws.

Sincerely,

Nedra Kennedy
City Manager

Corrective Action Plan City of Milford

Date: January 23, 2007

Contact Person: Nedra Kennedy

Completion Date: June 30th Annually

Management Statement: Milford City annually analyzes and compares actual expenditures versus the budget amounts. The budget is then opened in a public hearing for the purpose of amending each departmental revenues and expenditures before year end. The amounts which represent the revenue and expenditures for Milford City are considered accurate as of the amend date which is by law required before the year-end date of June 30th. Our budget and actual figures are then forwarded to the city auditor who make unforeseen journal entries, which create the over expended budget amounts.

Corrective Action: Milford City will continue to monitor the budgeted and actual revenues and expenditures but will make every attempt to consider additional funds for the journal entries made by the auditor. It is our desire to be in compliance with all State laws.